

ANNUAL REPORT



1978



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RIVERSIDE YARNS LIMITED

Directors

J. BOECKH
D.M. DEACON
S.E. EDWARDS, Q.C.
A. GOLD
WM. W. LAIRD, Q.C.
E. LAWRENCE
B.J. PATERAS, Q.C.
J.G. WEIR

Officers

WM. W. LAIRD, Q.C.
Chairman
E. LAWRENCE
President
S.E. EDWARDS, Q.C.
Secretary
R. SONES
General Manager
O. LANGLAIS, JR.
Treasurer-Controller

Head Office and Plant

Cornwall, Ontario

Bankers

THE TORONTO DOMINION BANK
ROYAL BANK OF CANADA

Solicitors

FRASER & BEATTY

Transfer Agents and Registrars

NATIONAL TRUST COMPANY
Toronto

Auditors

TOUCHE ROSS & CO.
Chartered Accountants
Cornwall, Ontario

Annual Meeting

April 27th, 1979 - 11:00 a.m.
Head Office,
Cornwall, Ontario

RIVERSIDE YARNS LIMITED

REPORT TO THE SHAREHOLDERS

Measures initiated by the Canadian Government during the past two years to limit imports of garments, fabrics and yarns, combined with the lower value of the Canadian dollar, resulted in continuing strong demand for our products during 1978. Riverside Yarns Limited operated at capacity throughout the year and completed a major plant expansion begun in 1977.

The texturing facilities installed during our expansion were of a new generation of high speed texturing machines and Riverside was amongst the first in America to install such equipment. We have undergone a lengthier period of start-up difficulties with these new facilities than expected. Nevertheless good progress has been made in solving these problems and textured yarn shipments increased to 19.3 million pounds, an increase of 89% over 1977 levels. As a result our domestic market share grew from 21% to approximately 38%.

Although much of our technical effort was applied during the year to developing satisfactory production processes on our new texturing equipment, we did not neglect our product diversification program which is so important to our future growth prospects. Of particular interest, and with large volume sales potential, is the very promising work being carried out to develop textured products which can replace spun yarns in some end uses.

Our labor force grew from slightly under 200 employees at the beginning of the year to about 250 and, in February, a new contract was signed with the Union for a two year period.

Your Company made good headway in 1978 and I am confident this progress will continue through 1979.

As announced mid March and referred to in the Information Circular to the Shareholders a 70,000 sq. ft. addition to our premises is under construction.

We will be adding six high speed Barmag machines to our production facilities, at a cost of \$3,700,000 , to help meet DuPont of Canada Limited needs for textured yarns. Satisfactory financing arrangements have been made.

On behalf of the Board of Directors

E. LAWRENCE
President

RIVERSIDE YARNS LIMITED

(Incorporated under the laws of Ontario)

BALANCE SHEET AS AT DECEMBER 31, 1978

	<u>ASSETS</u>	<u>1978</u>	<u>1977</u>
CURRENT			
Cash and short term deposits			
Unrestricted.....	\$ 947,004	\$ 586,517	
Restricted to repayment of current portion of long term debt ..	400,000	240,500	
Accounts receivable	92,517	102,612	
Inventories	13,112	4,684	
Prepaid expenses.....	268,425	171,047	
	<u>1,721,058</u>	<u>1,105,360</u>	
CASH AND SHORT TERM DEPOSITS restricted to repayment of long term debt.....	—	200,000	
FIXED ASSETS - net - Note 2	5,869,282	6,161,020	
DEFERRED FINANCING CHARGES.....	52,778	79,488	
OTHER.....	92,696	—	
	<u>\$7,735,814</u>	<u>\$7,545,868</u>	

LIABILITIES

CURRENT			
Accounts payable and accrued liabilities.....	\$ 625,086	\$ 562,338	
Principal due within one year on long term debt - Note 3	<u>1,972,400</u>	<u>1,107,928</u>	
	2,597,486	1,670,266	
LONG TERM DEBT - Note 3	<u>4,970,200</u>	<u>6,026,275</u>	
Total liabilities	<u>7,567,686</u>	<u>7,696,541</u>	

CAPITAL STOCK AND DEFICIT

CAPITAL STOCK - Note 4			
Authorized:			
120,000 class A \$.50 cumulative convertible voting shares without par value			
1,500,000 common shares without par value			
Issued:			
120,000 class A shares)			
170,000 common shares)			
DEFICIT.....	189,872	508,673	
	<u>168,128</u>	<u>(150,673)</u>	
	<u>\$7,735,814</u>	<u>\$7,545,868</u>	

Approved by the Board

E. LAWRENCE, Director

WM. W. LAIRD, Q.C., Director

RIVERSIDE YARNS LIMITED

STATEMENT OF INCOME

for the year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
Revenues	\$7,036,002	\$4,649,616
Processing and administrative expenses	<u>4,723,772</u>	<u>3,154,684</u>
Income before undernoted items	<u>2,312,230</u>	<u>1,494,932</u>
Depreciation	1,357,473	820,582
Interest on long term debt	606,843	473,910
Amortization of deferred financing charges	26,710	26,452
Other interest	<u>2,403</u>	<u>38,729</u>
	<u>1,993,429</u>	<u>1,359,673</u>
Income before income taxes and extraordinary items	318,801	135,259
Income taxes - Note 6	<u>130,000</u>	<u>57,241</u>
Income before extraordinary items	188,801	78,018
Extraordinary items - Note 5	<u>130,000</u>	<u>289,037</u>
NET INCOME	<u>\$ 318,801</u>	<u>\$ 367,055</u>
Earnings per common share - Note 4e		
Income before extraordinary items	<u>\$.76</u>	<u>\$.11</u>
NET INCOME	<u>\$ 1.52</u>	<u>\$ 1.81</u>

STATEMENT OF DEFICIT

Deficit at beginning of year	\$ 508,673	\$ 875,728
Net income	<u>318,801</u>	<u>367,055</u>
Deficit at end of year	<u>\$ 189,872</u>	<u>\$ 508,673</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

RIVERSIDE YARNS LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1978

	<u>1978</u>	<u>1977</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Income before extraordinary items	\$ 188,801	\$ 78,018
Add depreciation, amortization and income taxes		
which do not involve working capital	1,514,183	879,075
	<u>1,702,984</u>	<u>957,093</u>
Proceeds from disposal of fixed assets.	—	128,375
Transfer of restricted cash and short term deposits		
to current assets.	200,000	—
Proceeds from long term debt	3,626,000	3,247,928
Gain on settlement of certain liabilities	—	248,869
	<u>5,528,984</u>	<u>4,582,265</u>
WORKING CAPITAL APPLIED TO		
Additions to fixed assets	1,065,735	3,453,622
Additions to other assets	92,696	—
Deferred financing charges	—	12,475
Reduction of long term debt	4,682,075	1,138,253
Restricted cash and short term deposits	—	200,000
	<u>5,840,506</u>	<u>4,804,350</u>
Increase in working capital deficiency	311,522	222,085
Working capital deficiency at beginning of year	564,906	342,821
	<u>564,906</u>	<u>342,821</u>
Working capital deficiency at end of year	<u>\$ 876,428</u>	<u>\$ 564,906</u>

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

RIVERSIDE YARNS LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1978

1. SUMMARY OF ACCOUNTING POLICIES

a. Depreciation

The net book value of fixed assets on hand at December 31, 1976 and the cost of subsequent additions are depreciated on the straight line basis at 20% per year.

b. Deferred financing charges

Financing charges are amortized over the term of the related debt.

c. Investment tax credit

The investment tax credit is recognized in the year it is claimed for tax purposes as a reduction of the current tax provision.

2. FIXED ASSETS

	1978			1977
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>
Machinery and equipment	\$ 8,378,795	\$ 2,575,484	\$ 5,803,311	\$ 6,121,448
Leasehold improvements	80,740	14,769	65,971	39,572
	<u>\$ 8,459,535</u>	<u>\$ 2,590,253</u>	<u>\$ 5,869,282</u>	<u>\$ 6,161,020</u>

3. LONG TERM DEBT

	<u>1978</u>	<u>1977</u>
Secured		
Accounts payable to be financed by term bank loans	\$ —	\$ 567,928
14 - 3/4% debenture.....	—	2,208,275
Term bank loans, at bank prime rate plus 1 - 1/4%, each payable in sixty equal monthly instalments ..	5,092,600	2,368,000
8% debenture, non-interest bearing to December 15, 1979 with \$600,000 due on December 15, 1979 and blended monthly principal and interest payments of \$12,500 thereafter to December 15, 1982	1,000,000	1,000,000
Unsecured		
Non-interest bearing agreement	—	90,000
8% agreement	100,000	150,000
10 - 1/2% redeemable subordinated debentures, due October 31, 1980	750,000	750,000
	<u>6,942,600</u>	<u>7,134,203</u>
Less amount due within one year	<u>1,972,400</u>	<u>1,107,928</u>
	<u>\$4,970,200</u>	<u>\$6,026,275</u>

- a. The term bank loans and the 8% debenture are secured by the Company's fixed assets and by a floating charge on the Company's undertaking and its other property and assets, both present and future, subject to the right of the Company to deal with its property and assets in the ordinary course of business.

- b. The holders of the 10 - 1/2% subordinated debentures are entitled to require prepayment of \$500 principal for each 250 share purchase warrants exercised (See Note 4c).
- c. The long term debt is repayable as follows:

1979	\$1,972,400
1980	2,245,500
1981	1,455,400
1982	1,186,500
1983	82,800
	<u>\$6,942,600</u>

4. CAPITAL STOCK

- a. According to the terms of the secured debentures the Company may not, without prior written approval:
- Declare or pay any dividends on or make any distribution in respect of its common shares.
 - Make any change in its authorized or issued capital stock except in the manner outlined in b and c below.
- b. The class A shares are convertible into common shares on the basis of one common share for each two class A shares converted.
- c. Share purchase warrants issued with the 10 - 1/2% redeemable subordinated debentures entitle the holders thereof to purchase in the aggregate 187,500 common shares at a price of \$2.00 per common share up to October 31, 1980.
- d. Dividends on class A shares are in arrears at December 31, 1978 in the amount of \$3.25 per share totalling \$390,000.
- e. Fully diluted earnings per common share would be \$.51 before extraordinary item and \$.82 after extraordinary item.

5. EXTRAORDINARY ITEMS

	<u>1978</u>	<u>1977</u>
Income tax reduction realized by claiming capital cost allowance in excess of depreciation recorded	\$ 130,000	\$ —
Gain on disposal of fixed assets	—	8,127
Gain on settlement of certain liabilities	—	248,869
Income tax reduction realized on application of prior year's loss	—	32,041
	<u>\$ 130,000</u>	<u>\$ 289,037</u>

6. INCOME TAX

The Company has available an excess of undepreciated capital cost over net book value of fixed assets less other items deferred in the accounts but already claimed for tax purposes of approximately \$690,000 (1977 - \$890,000). The tax effect has not been recorded in the accounts.

7. DUPONT AGREEMENT

The Company has entered into an agreement with DuPont of Canada Limited which commits the Company's processing facilities exclusively to DuPont until 1982, with options by DuPont to extend the agreement. DuPont may terminate the agreement under certain specified circumstances. The Company has no right of termination.

The company has agreed to use a specific portion of the cash received under this agreement for repayment of fixed asset financing.

8. COMMITMENTS

The Company rents its land and buildings under a thirty year lease effective September 1, 1975 at an annual rent of approximately \$560,000, of which approximately \$160,000 pertains to the expansion of the premises. The rent may be adjusted depending on any changes in the lessor's financing arrangements. A director of the Company is the beneficial owner of 33.6% of the lessor company's outstanding equity shares.

9. REMUNERATION OF DIRECTORS AND OFFICERS

Remuneration of directors and senior officers amounted to \$186,299 (1977 - \$189,912)

10. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current basis of presentation.

AUDITORS' REPORT

The Shareholders
Riverside Yarns Limited

We have examined the balance sheet of Riverside Yarns Limited as at December 31, 1978 and the statements of income, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The 1977 comparative figures were reported on by another firm of chartered accountants.

Cornwall, Ontario
January 26, 1979

TOUCHE ROSS & CO.
Chartered Accountants

